Wealth Management
Dominion Securities

Pavan Stevenson Wealth

Leroy Pavan
Investment Advisor
403-317-4330
leroy.pavan@rbc.com

Daryll Stevenson
Investment Advisor
403-317-4318
daryll.stevenson@rbc.com

Aric Pavan
Investment Advisor
403-317-4348
aric.pavan@rbc.com

www.pavanstevenson.com

Life events: Business owner – sole proprietorship

Financial checklist

Operating a company as a Sole Proprietor is a challenging and, hopefully, rewarding experience. But, you want to be sure that your company is being managed and structured as efficiently as possible. Appreciating and taking advantage of all of the techniques and strategies available will help to ensure that running your company will continue to be a profitable and satisfying experience. Your Advisor can provide assistance and guidance about running an efficient business. Take this opportunity to review your situation and consider asking your Advisor the following questions:

- What is the best way to finance the company?
- What regulatory requirements am I facing?
- What should be included in a comprehensive budget?
- What are the implications of hiring employees?
- How can I receive income from my company?
- What sort of insurance coverage do I need?
- How will my company affect my retirement and estate plans?
- How will my company be taxed?

Estate planning

No matter your age, it is never too early to begin planning for the transfer or sale of your business as part of your estate plans. While this may be a situation occurring many years in the future, a proper plan can help ensure that your business assets pass on to your heirs efficiently and in line with your goals.

Legally, a Sole Proprietor is indistinguishable from the business itself, which limits the ways you can transfer the business after your death. Business assets become part of the owner's estate and are distributed in accordance with your Will. As with any estate assets, the value of those business assets is subject to provincial probate taxes as well as federal income tax if they have increased in value since the time of purchase (called an 'unrealized gain'). The Executor of an estate is legally obligated to pay any estate debts before distributing assets to beneficiaries.

There should be provisions in your Will to provide your Executor with the necessary money to pay those debts. De-tailing which assets can be sold to raise cash or using life insurance, are two ways to deal with this issue; your financial Advisor can help you with either of these options or suggest others.

Succession planning

If you have family members, such as children, who are willing to take over your business, you can create a provision in your Will that allows them to assume your business assets after any estate debts have been paid, as discussed above. However, where family members are unwilling or unable to take over the business, you will most likely need to sell and distribute your business assets.

The buy-sell agreement

As a Sole Proprietor, you may establish a legal Buy-Sell Agreement that directs your Executor to sell the business to a particular individual or individuals, perhaps a key employee. The major advantage of the Buy-Sell Agreement is that your Executor knows exactly who the assets are going to and is not burdened with the task of trying to find a willing buyer or having to sell the assets quickly. Finding a willing buyer for the business assets will probably take time and it is a good idea for you to consider the issue long before there is any need to transfer your business as-sets.

As far as the taxation of a Buy-Sell Agreement, it is assumed under tax law that when a person dies all assets are sold at Fair Market Value (unless the assets are being transferred to a surviving spouse). Any resulting taxes will have to be paid by the deceased's estate.

Conversion to a corporation

Many Sole Proprietors eventually convert to the corporate structure, particularly if business is going well. The corpo-rate business structure is very different from a proprietorship and there are definite implications for succession and estate planning. If you are contemplating converting to a Corporation your Financial Advisor can provide you with more information on corporate estate planning.

Retirement planning

As the owner of a Sole Proprietorship you will no doubt have your hands full establishing and managing your busi-ness. But it is also important to plan ahead as your business will probably be your primary source of income and also the basis for much of your income in retirement.

Keeping the business in the family

Even if you have a family member willing and able to take over the business, you will still need to consider how to take advantage of the value of the business for providing funding for your retirement. There are two basic approach-es available:

1. Transfer the business to a child or other family member

There are two main issues to consider with this option. First, how will the sale be funded? In many cases a child will not have the financial ability to purchase the business outright without assuming some sort of debt. One alternative is to structure the transaction as an installment sale whereby the payments are made over time, ideally out of com-pany profits. The second issue is valuation – determining a price for the business. Whether you choose to transfer your business as a sale or as a gift, it is likely you will have to pay tax on what is called the 'disposition' of the as-sets. The amount of this tax, if any, will depend on the fair market value (FMV) of those assets. Even if you were to transfer your business assets to a family member as a gift (if that family member did not need the return of capital, for example) the transaction would still be considered a disposition at FMV and subject to any applicable taxes.

2. Transfer the business to an arm's-length party

At retirement, you could also choose to sell your business assets to a non-family entity, such as a key employee or even a competitor. As with a transfer to a child or family member, you would need to consider how to fund such a sale. It is often difficult to identify potential purchasers of small businesses, so planning any transfer of business as-sets well in advance is strongly advised.

Personal savings – RRSPs

While you will certainly want to consider realizing the value of your company in the future with the strategies discussed above, you should also be setting aside funds along the way. As a Sole Proprietor you will not have access to company pension plans but can still take advantage of Registered Retirement Savings Plans (RRSPs). The amount that can be set aside in an RRSP is dependent on earned income in the previous tax year. Income earned from a Sole Proprietorship is considered income for RRSP purposes. In 2015 you can contribute the lesser of $24,930 and 18% of your 2014 earned income. The amount contributed will result in a tax deduction and the money will grow tax-free in the plan until withdrawn. Although the amount eventually withdrawn will be fully taxable you may be in a lower tax bracket in retirement resulting in tax savings. The investment options within an RRSP are very broad and there will certainly be investments that match your objectives, circumstances and risk profile. You should speak to your Advisor about establishing and managing your RRSP.

Tax-Free Savings Accounts (TFSAs)

As a Sole Proprietor you can also establish a TSFA. TSFAs are tax-sheltered plans that are like an RRSP in reverse. Instead of receiving a tax deduction on contributions and paying full tax on withdrawal, contributions to the plan do not receive a tax deduction but any growth on the investments in the plan can be withdrawn tax-free. TFSAs are particularly useful for those who have either maximized their RRSP contributions or are unable to have an RRSP due to factors such as age. The amount that can be contributed to a TFSA is limited but increases annually by approximately $5,500. As of January 2015 the limit increased to $10,000, each taxpayer will have amassed $41,000 in contribution room. Please speak to your Advisor to learn more about how the TFSA works.